

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Novi Community School District, Michigan	County Oakland
Audit Date June 30, 2005	Opinion Date September 15, 2005	Date Accountant Report Submitted to State: November 4, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

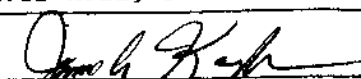
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) Doeren Mayhew			
Street Address 755 West Big Beaver Road, Suite 2300	City Troy	State MI	ZIP 48084
Accountant Signature  James A. Koepke			

**NOVI COMMUNITY SCHOOL
DISTRICT, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2005

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Independent Auditor's Report

To the Board of Education of the
Novi Community School District, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Novi Community School District, Michigan as of June 30, 2005 and for the year then ended, which collectively comprise the School District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Novi Community School District, Michigan's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Novi Community School District, Michigan as of June 30, 2005, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 15 and page 48 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

DOEREN MAYHEW

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Novi Community School District, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2005 on our consideration of the Novi Community School District, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



DOEREN MAYHEW

September 15, 2005
Troy, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction:

The Novi Community School District's (the District) financial year is from July 1st through June 30th. Each year the District's financial records are audited by a third party independent auditor and the results are published. The audit is performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards as issued by the Governmental Accounting Standards Board (GASB). These standards require the inclusion of meaningful and useful data which broaden the reader's understanding of the District.

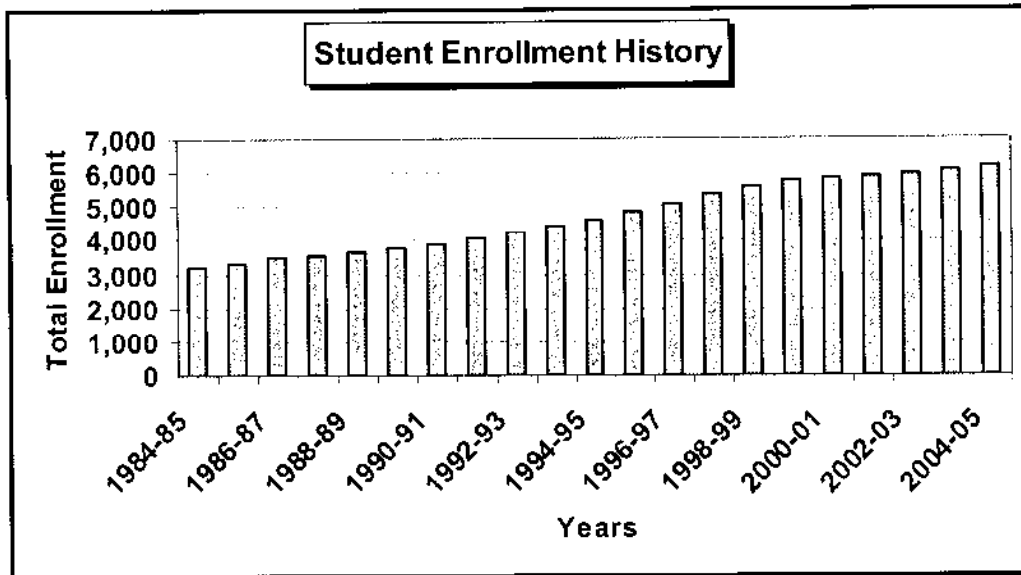
District Characteristics:

The Novi Community School District is an independent school district operating under the laws of the State of Michigan and is governed by an elected (at large) seven-member Board of Education. The District is located in southern Oakland County and encompasses 17.9 square miles with the vast majority of its area within the City of Novi except for a small parcel of land in the City of Wixom. The District has seen and continues to see growth and development of both its residential and non-residential properties.

The School District has five (5) elementary schools, grades K-4; one (1) upper elementary school, grades 5-6; one (1) middle school, grades 7-8; and one (1) high school, grades 9-12. All eligible schools are accredited by the North Central Association of Colleges and Schools (NCA) and one school, Novi High School, has achieved recognition as a National Blue Ribbon School. The District also has a pre-school building, Board of Education office, a transportation facility, and a maintenance facility.

Enrollment:

As shown in the following chart the District's student population has grown from 3,203 in 1984-85 to the current (2005) population of 6,167. The projection for 2005-06 shows growth of an additional 83 students. Enrollment projections are completed annually. In each five year interval, the District convenes a citizen's committee and performs a comprehensive enrollment projection analysis. Information used to complete this analysis consists of housing data (both current and proposed), economic factors, land availability and zoning, and the assistance of Michigan State University's analysis of the District's births and cohort survival ratios. To date, the studies have proven to be accurate in planning for future facility needs.



Tax Structure:

Per the Tax Code of the State of Michigan, public school districts levy taxes on two types of property: Homestead (residential) and Non-Homestead (non-residential). In addition, the State of Michigan levies a fixed 6.0000 mills against these properties. The tax levies are applied against the Taxable Value of properties or approximately 50% of the market value of the properties. A complete analysis of the tax levies can be found in the "Other Supplemental Information" portion of the audit.

In 2005, the District levies against these two property classifications can be summarized below:

<u>Tax Description</u>	<u>Homestead</u>	<u>Non-Homestead</u>
General Operating	4.8181	18.9800
Sinking Fund	.4932	.4932
All Debt Millage	<u>6.7300</u>	<u>6.7300</u>
Total	<u>12.0413</u>	<u>26.2032</u>

Curriculum:

The Novi Community School District has an extensive academic and extra-curricular program that provides comprehensive educational, athletic and organizational opportunities to students from pre-school age through high school. An extensive curriculum, based predominantly on the Michigan Curriculum Framework and enriched with additional programs for all ages is ranked among one of the State's highest in terms of achievement levels and success rates (high school graduation, college entrance, above average scores on state and national tests).

Curriculum: - Continued

No Child Left Behind (NCLB), a federal law enacted in 2001, issued directives to states to require Adequate Yearly Progress (AYP) for its districts and schools within them such that all students would meet 100% proficiency in English/language arts (reading and writing) and mathematics by 2014. States were required to establish a way to measure each district and school, and students within each school's demographic strands based on proficiency on the state's academic assessment (in Michigan, this assessment is the Michigan Educational Assessment Program, or MEAP). Michigan also established a report card system. The report cards for Novi Community Schools' eight schools reflect seven A's and one B. MEAP scores for Novi's schools remain within the top 3-5 districts in the county out of 28 school districts. The District is always well above the state averages.

There are two important notes to add to NCLB and AYP. The first is that it is important that MEAP (a set of tests), and through its AYP, only measures a small part of the broad range of academic achievement students demonstrate. As a result, though our school scores are consistently very high, the School District also feels compelled to advocate for a broader representation of what our students actually do. Hence, we continually showcase the superb achievements our students have contributed to our community and to their futures. All academics as well as the arts, physical fitness, etc. are described. We feel strongly that this broad representation of achievement recaptures the integrity of why we educate in the first place - to develop an informed citizen who participates and supports a vibrant Democracy.

The second critical note to express here is the disregard that NCLB has on including in its reporting the educational innovations that communities, districts, and schools have implemented. These educational innovations comprehensively impact achievement through their focus on making smaller, more personally responsive learning environments for students. Examples include: schools within a school, teaming, multi-age learning, continuous progress, etc. Our District has embraced these innovations because we realize they are an investment in safety, achievement, joyfulness in learning and an expression of our local voice in the greater conversation about the future of public schooling in the United States - an integrity we value.

There is an extensive Community Education program that features a full day and half day pre-school program, child care for students both before and after school and all summer, and programs for community residents and parents who are new to the District.

At the elementary levels, five (5) schools provide K-4 educational programming, including one building that was designed and built around a "teaming concept" and another that features a simulated "community" environment for learning.

There is one 5/6 elementary building and a 7/8 middle school, as well as a 9/12 comprehensive high school. The high school features a "four block schedule" and a new "Freshman Academic Seminar" to integrate entering students into a very large school by keeping 'big small' in the way students are handled. The high school curriculum also features an extensive Advanced Placement curriculum and special education programs and services.

Curriculum: - Continued

Professional staff development is a priority in the District. Many factions of the staff (including support as well as instructional staff) are well versed in the theories of Choice Theory, and a climate of respect and a 'joy for learning' is conveyed from the Superintendent's office throughout the entire school community.

Financial Information:

This section of the 2005 annual financial report presents our discussion and analysis of the School District's financial performance during the year ended 2005. Please read this in conjunction with the District's actual financial statements which immediately follow this section.

This annual report consists of three (3) parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. In addition, there is a section which provides other supplementary information. The statements are organized so the reader can understand the Novi Community School District financially as a whole.

The first of the financial statements is the *District Wide Financial Statements* which provide information about the activities of the "whole" District, presenting both an aggregate view of the District's finances and long-term view of those finances.

The second of the statements are the *Fund Financial Statements* which indicate how governmental services were financed in the short-term as well as what remains for future spending. The Fund Financial Statements look at the District's operations in more detail than the District Wide Financials by providing information about the District's most significant funds: the General Fund and the 2001 Capital Improvement Fund. All other funds are presented in one column and listed as "nonmajor" funds which include: 2001 Sinking Fund, 1993 Debt Fund, 1997 Debt (Refinancing) Fund, 1998 Debt Fund, 2001 Debt Fund, 2002 Debt (Refinancing) Fund, 2005 Debt (Refinancing) Fund, Food Service Fund, and Athletic Fund.

The last statement is the *Fiduciary Fund Statements*. These are funds with which the District act as the trustee, or fiduciary, for the assets that belong to others. The funds in this category are the Scholarship Funds (Richard Erwin Memorial Scholarship, Mary B. Baber Memorial Scholarship Fund), and all of the schools' student activity funds. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance operations.

Reporting the School District as a Whole - District-wide Financial Statements:

There are two (2) statements under this category: the statement of net assets and the statement of activities. These statements report information about the District as a whole using accounting methods normally used in private industry. All of the current year's revenues and expenses are accounted for in these statements regardless from which fund or when they were collected or paid.

The statements show the difference between all of the District's assets and liabilities, thereby indicating the District's net asset worth, and is one way to measure the District's financial health or complete financial position. Over time, increases or decreases in the District's net assets, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. However, it must be remembered it is not the function of a public school system to generate profits; instead, a district's worth is measured by its quality of instruction and the efficiency and effectiveness of its delivery.

The statement of net assets and statement of activities report the governmental activities for the District, which encompass all of the District's services, including instruction, support services, community services, athletics, and food service. Property taxes, state aid, and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements:

As heretofore mentioned, the District's fund financial statements provide detailed information about its most significant funds. Within these governmental funds all of the District's services are reported. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for future spending. They are reported using the modified accrual method of accounting, which measures cash and all other financial assets that can readily be converted to cash. These statements provide a detailed short-term view of the District's operations and help to determine whether or not there may be monies available in the near future to finance the District's programs.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities:

All of the District's fiduciary activities are reported in separate statements of fiduciary net assets. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the District as a Whole:

The "Statement of Net Assets" provides the perspective of the District as a whole. The table below provides a summary of the net assets as of June 30, 2005 and 2004:

Table I		
Novi Community School District		
Net Assets - Governmental Activities		
As of June 30, 2005 and 2004		
	<u>2005</u>	<u>2004</u>
Assets		
Current and Other Assets	\$ 28,859,501	\$ 45,313,382
Capital Assets	<u>148,211,249</u>	<u>139,675,008</u>
Total Assets	177,070,750	184,988,390
Liabilities		
Current Liabilities	17,040,803	16,813,085
Long-term Liabilities	<u>126,169,991</u>	<u>132,337,546</u>
Total Liabilities	143,210,794	149,150,631
Net Assets		
Invested in Capital Assets, Net of Related Debt	16,137,625	1,779,536
Restricted	9,017,049	26,596,672
Unrestricted	<u>8,705,282</u>	<u>7,461,551</u>
Total Net Assets	\$ 33,859,956	\$ 35,837,759

The District's *combined* net assets were \$33,859,956 at June 30, 2005. Capital assets, net of related debt, totaled \$16,137,625. This compares the original cost, less depreciation of the District's capital assets, to long-term debt used to finance the acquisition of those assets. The majority of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets of \$9,017,049 are reported separately and include equity from the debt funds which are legally obligated for debt payments only and not for the day-to-day operations of the District. The remaining amount of net assets, \$8,705,282, was unrestricted.

The \$8,705,282 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net asset balance is used for working capital and cash flow needs as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year-to-year.

Financial Analysis of the District as a Whole: Continued

The results of this year's operations as a whole are reported in the "Statement of Activities" (Table II, below). This table illustrates the changes in net assets for fiscal years 2005 and 2004.

Table II Novi Community School District Changes in Net Assets For the years ended June 30, 2005 and 2004		
	<u>2005</u>	<u>2004</u>
Revenues		
Program Revenues		
Charges for services	\$ 4,067,208	\$ 3,756,156
Operating grants and contributions	1,394,247	1,224,241
General Revenues		
Property taxes	37,493,482	33,714,458
State aid	34,035,420	33,385,125
Other	<u>3,099,036</u>	<u>4,525,789</u>
Total Revenues	80,089,393	76,605,769
Expenses		
Instruction	42,095,806	39,054,362
Support services	23,819,822	20,601,066
Community services	2,157,078	1,924,710
Food services	2,315,889	2,219,410
Athletics	762,352	776,067
Principal	61,737	38,095
Interest on long-term debt	7,267,757	7,856,381
Buildings and additions	3,035,041	3,103,772
Other	<u>551,714</u>	<u>233,259</u>
Total Expenses	82,067,196	75,807,122
Increase (Decrease) in Net Assets	(\$ 1,977,803)	\$ 798,647

As reported in the statement of activities, the revenue for all *governmental* activities this year was \$80,089,393. Certain activities were partially funded from those who benefited from the programs, such as food service, athletics, and community service (\$4,067,208); or by other governments and organizations that subsidized certain programs with grants and contributions (\$1,394,247). The remaining "public benefit" portion of governmental activities was funded by the \$37,493,482 in property taxes, \$34,035,420 in State aid, and with other revenues (\$3,099,036) such as interest, transfers from the Oakland Intermediate School District, and general entitlements. The Novi Community School District experienced a decrease in net assets of (\$1,977,803), due primarily to the disposal of assets due to building renovation.

Financial Analysis of the District as a Whole: Continued

As discussed above, the net cost shows the financial burden that was placed on the State and the District's taxpayers by each of these functions. Since property taxes for operations and State aid constitute the vast majority of the District's operating revenue, the Board of Education and the Administration must annually evaluate the needs of the District and balance those needs with the availability of these two revenue sources.

The School District's Funds:

The financial performance of the Novi Community School District as a whole is also reflected in its governmental funds. Looking at the individual funds helps the reader consider whether the District is being held accountable for the resources taxpayers and others provide to it and may give more insight into the District's overall financial health.

As the District completed this year, the governmental funds reported a combined fund balance of \$20,391,124, a decrease of \$16,564,384 from the previous year. These changes are summarized below:

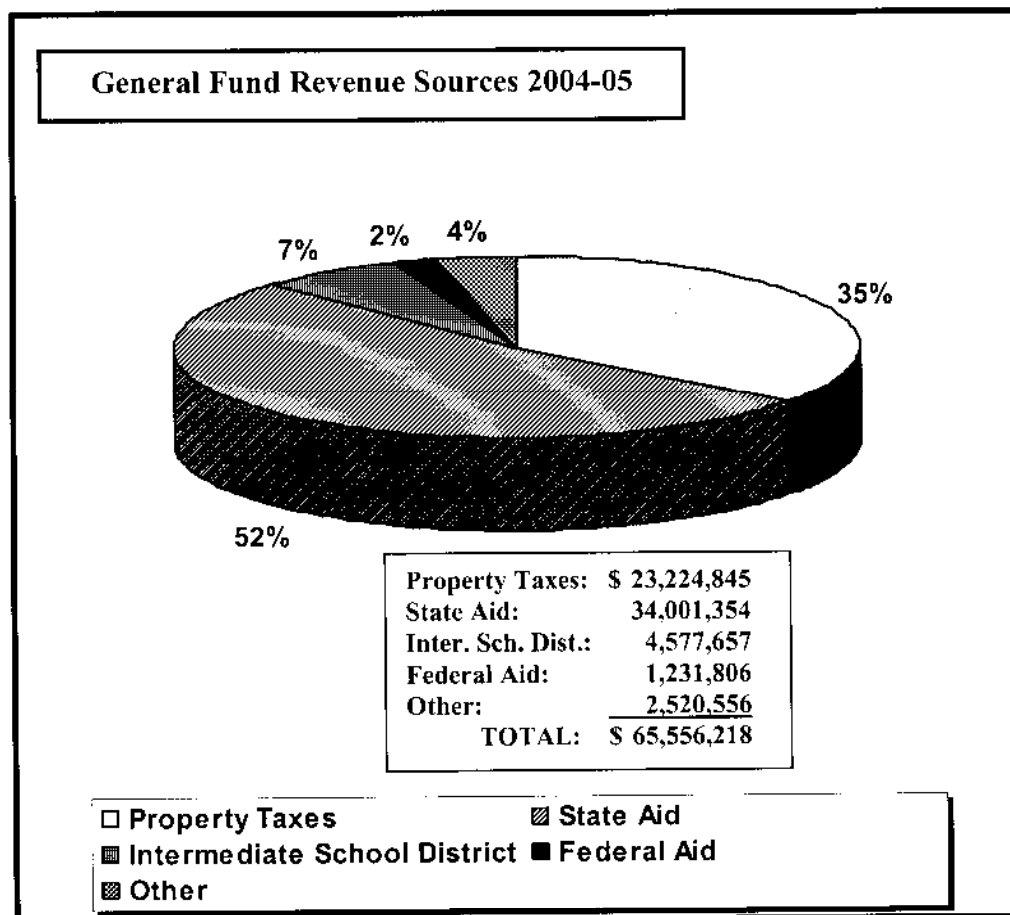
	<u>General Fund</u>	<u>2001 Capital Project Fund</u>	<u>Other Nonmajor Govern- mental Funds</u>	<u>Total</u>
Beginning fund balances	\$ 10,957,760	\$ 24,308,885	\$ 1,688,863	\$ 36,955,508
Increase (decrease)	<u>886,213</u>	<u>(18,317,925)</u>	<u>867,328</u>	<u>(16,564,384)</u>
Ending fund balances	<u>\$ 11,843,973</u>	<u>\$ 5,990,960</u>	<u>\$ 2,556,191</u>	<u>\$ 20,391,124</u>

The reason for the decrease in equity is a direct result of projects being completed in the 2001 Capital Projects Fund. In this last year, there have been additions and renovations to Novi Woods Elementary School and Novi High School.

General Fund:

The General Fund is the primary operating fund of the District, and provides all the educational services to our students. Revenues totaled \$65,556,218 and expenses totaled \$64,670,005 for a net increase of \$886,213. As a result of this net increase, the fund's equity increased from \$10,957,760 in 2003-04 to the current \$11,843,973. This balance is available to fund costs related to allowable school operating expense.

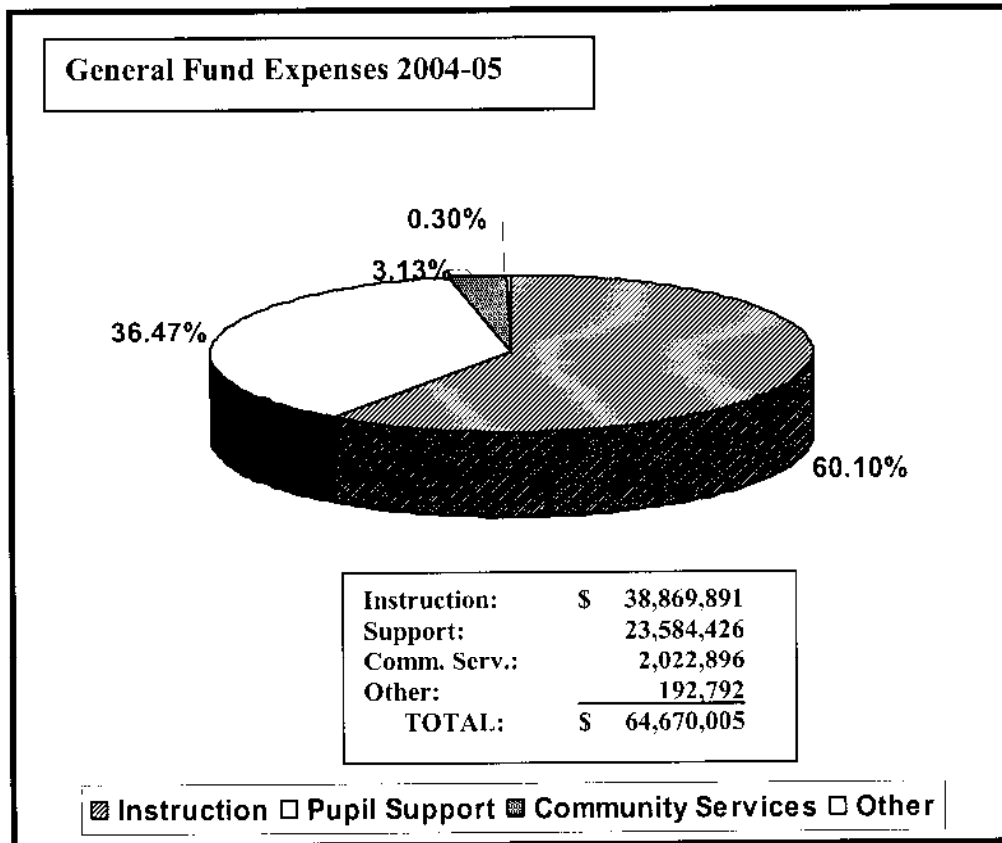
An analysis of the General Fund's revenues reveals that the District is dependant upon the State for the majority of its income. A listing of the revenue sources and their respective percentage to total income is shown on the chart below:



The General Fund expenses include those that are necessary to run the operations of the District. Basically, these expenses are categorized into four main areas: instructional services, pupil support services, community services and other. *Instructional services* are those that are directly related to the teacher in the classroom. *Pupil support services* include those things that "support" the student body, classroom instruction and student achievement, such as media, counseling, testing, psychological and social work services. Also under this category is all operational expenses such as utilities, insurances, custodial, transportation, and administrative. *Community services* are those expenses related to community education including community academic and recreational classes as well as early childhood programs. *Other services* include debt payments and inter-fund and inter-school district transfers.

General Fund: - Continued

The chart below breaks down the General Fund's expenses in broad categories and indicates their respective percentages.



2001 Capital Project Fund:

This fund is used to pay for major construction projects within the District as indicated in a bond proposition that was passed by the voters in 2001. The original bond issue generated proceeds of \$75,640,000 "for the purpose of: erecting, furnishing and equipping additions to and remodeling, refurbishing and re-equipping school district buildings; acquiring and installing educational technology improvements; acquiring land for site purposes; and developing and improving sites, outdoor physical education and athletic facilities". Since 2001 the District has expended a portion of these funds on numerous construction projects, and, as a result, has decreased this fund's equity to \$5,990,960 as of June 30, 2005.

Other Nonmajor Funds:

The nonmajor funds consist of the Food Service Fund, Athletic Fund, Debt Funds, and the Sinking Fund. The Food Service Fund had an increase in its equity amounting to \$129,026. The remaining 2005 equity of \$404,878 leaves the fund financially sound. The Athletic Fund had an operating loss of (\$634,614) which is offset by a transfer from the General Fund. This is a common occurrence in Michigan school districts and, as such, is normally budgeted in the General Fund. The six Debt Funds (1993 Debt Fund, 1997 Debt Fund, 1998 Debt Fund, 2001 Debt Fund, 2002 Debt Fund, and the 2005 Debt Fund) have a combined equity of \$1,532,186, which is available for future debt obligations. This is an increase of \$426,049 from the 2004 equity position. Debt millage rates are determined annually to ensure that the District accumulates sufficient resources to pay annual bond issue related debt service. The Sinking Fund had an increase in its equity position by \$312,254 to cause the 2005 equity to be \$619,128.

General Fund Budgetary Highlights:

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and disbursements. In June of each year the original budget is adopted. This is normally based on estimates since the student count, state aid, and, oftentimes, salaries are unknown. In early winter the budget is then amended to reflect actual data available. The final amendment to the budget is then adopted near the end of the fiscal year. A schedule showing the District's original and final budget amounts compared with actual amounts is provided in the required supplemental information of these financial statements.

Capital Asset and Debt Administration

Capital Assets

By the end of 2005, the District had invested \$139,688,455 in a broad range of capital assets, including land, school buildings, athletic facilities, technology and other equipment. Table III summarizes these assets (more detailed information is found in Note 5).

Table III	
Novi Community School District	
Capital Assets	
As of June 30, 2005	
<u>Item</u>	<u>Amount</u>
Land	\$ 9,607,341
Construction-in-Progress	6,302,004
Buildings	82,897,076
Building Improvements	36,219,497
Grounds Improvements	8,352,055
Vehicles, Equipment, and Other	<u>4,833,276</u>
Total capital assets	\$148,211,249

Debt

At the end of this fiscal year, the District had \$131,397,062 in bonds outstanding versus \$136,933,302 in the previous year. These bonds consisted of the following:

<u>Bond Issue</u>	<u>Bonds Outstanding</u>
1993 Bond Issue	\$ 3,367,062
1997 Bond Issue	15,460,000
1998 Bond Issue	1,855,000
2001 Bond Issue	71,990,000
2002 Bond Issue	26,805,000
2005 Bond Issue	<u>11,920,000</u>
Total bonds outstanding	<u>\$131,397,062</u>

The 2005 Bond issue is an advance refunding of a portion of the bond in the 1998 issue. All of the above bonds are general obligation bonds. The State limits the amount of bonded indebtedness that school districts can issue to 15% of the assessed value of all its taxable property. This amount is far below the \$347,396,919 statutorily imposed limit.

Other obligations include accrued leases on copiers, bus notes, sick leave, and severance pay. These are detailed in Note 9.

Factors Bearing on the District's Future:

The Board of Education and the administration consider many factors when developing the District's budget. As has been mentioned, the District is very dependant upon the State for its funding. Since 1995 school districts cannot levy any additional property taxes for general operating purposes; thus, the dependency upon State resources is magnified that much more. The majority of State aid that a district receives is calculated by a per pupil amount multiplied by a district's total enrollment (converted to full time equivalencies). Annually, the State legislature determines this per pupil amount. From 1995 to 2002 this amount has been helpful toward assisting the District to meet its financial obligations. In both the 2003-04 and 2004-05 fiscal years the State had not increased the per pupil allocation. This was primarily due to the weak condition of the State's economy. For the upcoming 2005-06 year the State has increased the allocation by \$175.00 per child. Predictions for the following years are nebulous at best. However, it appears as though the State recognizes the importance of education and its impact on "job creation".

The Novi Community School District is concerned about the future lack of State funding. The District's equity is sufficient to meet current estimated reductions, but it cannot continue to meet sustained losses over a period of time. In spite of this environment, the District will strive to maintain its long-standing commitment to academic excellence and educational opportunities for students within any financial framework.

Contacting the District's Financial Management:

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of Novi Community School District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Novi Community School District, 25345 Taft Road, Novi, Michigan 48375.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents (note 3)	\$ 21,611,734
Property taxes receivable - net of allowance	705,894
Other receivables	
State aid	6,098,091
Federal aid	101,308
Other	101,231
Inventories and prepaid expenses	241,243
Capital assets, net of accumulated depreciation (note 5)	<u>148,211,249</u>
 Total assets	 177,070,750
 Liabilities	
Accounts payable	4,206,628
Accrued payroll and benefits	4,851,459
Interest payable	1,234,433
Long-term liabilities (note 9)	
Long-term liabilities due within one year	6,748,283
Debt, net of premiums and discounts	125,557,197
Postemployment severance and employee benefits payable	<u>612,794</u>
 Total liabilities	 143,210,794
 Net Assets	
Invested in capital assets, net of related debt	16,137,625
Restricted for	
Specific purpose	874,776
Debt service	1,532,185
Capital assets	6,610,088
Unrestricted	<u>8,705,282</u>
 Total net assets	 <u><u>\$ 33,859,956</u></u>

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

		Program Revenues		Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues and Change in Net Assets
Functions/Programs				
Governmental activities				
Instruction	\$ 42,095,806	\$ -	\$ 1,231,757	\$ (40,864,049)
Support services	23,819,822	30,911	49	(23,788,862)
Food services	2,315,889	2,083,237	162,441	(70,211)
Athletic program	762,352	80,315	-	(682,037)
Community services	2,157,078	1,872,745	-	(284,333)
Principal	61,737	-	-	(61,737)
Interest on long-term debt	7,267,757	-	-	(7,267,757)
Buildings and additions	3,035,041	-	-	(3,035,041)
Other	551,714	-	-	(551,714)
Total governmental activities	<u>\$ 82,067,196</u>	<u>\$ 4,067,208</u>	<u>\$ 1,394,247</u>	(76,605,741)
General revenues				
Taxes				
Property taxes, levied for general purpose				23,223,320
Property taxes, levied for debt service				13,297,050
Property taxes, levied for capital assets				973,112
State aid				
Formula grants - unrestricted				30,743,237
Restricted				3,292,183
Intermediate school district				4,577,657
Investment earnings				358,000
Miscellaneous				444,164
Special item - loss on disposal of capital assets				(2,280,785)
Total general revenues and special item				<u>74,627,938</u>
Change in Net Assets				(1,977,803)
Net Assets - July 1, 2004				<u>35,837,759</u>
Net Assets - June 30, 2005				<u>\$ 33,859,956</u>

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

ASSETS

	General Fund	2001 Capital Project Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents (note 3)	\$ 11,436,544	\$ 7,142,575	\$ 3,032,615	\$ 21,611,734
Property taxes receivable - net of allowances	469,612	-	236,282	705,894
Other receivables				
State aid	6,098,091	-	-	6,098,091
Federal aid	101,308	-	-	101,308
Other	67,758	-	33,473	101,231
Due from other funds (note 6)	406,989	-	16,631	423,620
Inventories	185,573	-	26,267	211,840
Prepaid expenses	25,467	-	3,936	29,403
	<u>\$ 18,791,342</u>	<u>\$ 7,142,575</u>	<u>\$ 3,349,204</u>	<u>\$ 29,283,121</u>
Total assets				

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable	\$ 1,661,906	\$ 1,151,615	\$ 55,423	\$ 2,868,944
Accrued payroll and benefits	4,821,631	-	29,828	4,851,459
Due to other funds (note 6)	-	-	423,620	423,620
Deferred property tax revenue (note 4)	463,832	-	284,142	747,974
	<u>6,947,369</u>	<u>1,151,615</u>	<u>793,013</u>	<u>8,891,997</u>
Total liabilities				

Fund Balances

Reserved for				
Inventories	185,573	-	-	185,573
Prepaid expenses	25,467	-	-	25,467
Encumbrances	874,776	-	-	874,776
Unreserved				
Designated	109,882	-	-	109,882
Designated for debt service	-	-	1,532,185	1,532,185
Designated for capital projects	-	5,990,960	619,128	6,610,088
Undesignated	10,648,275	-	404,878	11,053,153
	<u>11,843,973</u>	<u>5,990,960</u>	<u>2,556,191</u>	<u>20,391,124</u>
Total fund balances				
Total liabilities and fund balances	<u>\$ 18,791,342</u>	<u>\$ 7,142,575</u>	<u>\$ 3,349,204</u>	<u>\$ 29,283,121</u>

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO GOVERNMENTAL NET ASSETS
JUNE 30, 2005**

Total fund balances - governmental funds	\$ 20,391,124
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, not reported as assets in governmental funds:	
Cost of capital assets	179,237,085
Accumulated depreciation	(31,025,836)
Property taxes and other miscellaneous receivables will be collected this year but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds	
	747,974
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds:	
Bonds payable	(131,397,062)
Bus loans payable	(50,785)
Capital leases payable	(625,777)
Capital project retainages payable	(1,337,684)
Compensated absences	(164,221)
Severance packages payable	(680,429)
Accrued interest payable is not included as a liability in governmental activities	<u>(1,234,433)</u>
Total net assets - governmental activities	<u>\$ 33,859,956</u>

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>General Fund</u>	<u>2001 Capital Project Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 23,224,845	\$ -	\$ 14,314,812	\$ 37,539,657
Interest/earnings on investments	203,671	44,958	109,372	358,001
Fees and charges	2,316,885	-	2,157,414	4,474,299
State aid	34,001,354	-	34,066	34,035,420
Federal aid	1,231,806	-	162,441	1,394,247
Other	-	-	31,605	31,605
Operating transfers - in	4,577,657	-	-	4,577,657
Total revenues	65,556,218	44,958	16,809,710	82,410,886
Expenditures				
Current				
Instruction and instructional - related services	38,869,891	-	-	38,869,891
Support services	22,398,100	-	-	22,398,100
Community services	2,022,896	-	-	2,022,896
Food services	-	-	2,171,828	2,171,828
Athletics	-	-	714,929	714,929
Debt service				
Principal	178,445	-	5,386,240	5,564,685
Interest	14,347	-	7,280,482	7,294,829
Buildings and additions	-	14,465,143	704,617	15,169,760
Capital outlay	-	3,774,508	-	3,774,508
Other	-	123,232	-	123,232
Total expenditures	63,483,679	18,362,883	16,258,096	98,104,658
Excess (Deficiency) of Revenues Over Expenditures	2,072,539	(18,317,925)	551,614	(15,693,772)
Other Financing Sources (Uses)				
Payments to bond escrow agent	-	-	(345,000)	(345,000)
Payments to other governmental units	(551,712)	-	-	(551,712)
Operating transfers	(634,614)	-	634,614	-
Proceeds from refinancing debt	-	-	26,100	26,100
Total other financing sources (uses)	(1,186,326)	-	315,714	(870,612)
Net Change in Fund Balances	886,213	(18,317,925)	867,328	(16,564,384)
Fund Balances - July 1, 2004	10,957,760	24,308,885	1,688,863	36,955,508
Fund Balances - June 30, 2005	\$ 11,843,973	\$ 5,990,960	\$ 2,556,191	\$ 20,391,124

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

Total net change in fund balances - governmental funds	\$ (16,564,384)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(4,389,720)
Capital outlay, including \$15,169,760 reported as buildings and additions	16,032,461
The net effect of other transactions involving capital assets that decreased net assets:	
Proceeds from capital leases on buses	(141,905)
Loss on disposal of capital assets	(2,280,785)
Because some property taxes and other miscellaneous revenues will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the governmental funds and are, instead, counted as deferred tax revenues. They are, however, recorded as revenues in the statement of activities	
	(40,706)
Some expenses are recorded in the statement of activities when incurred; they are not reported in governmental funds until paid:	
Accrued interest	27,072
Compensated absences	(6,218)
Severance liabilities	(690,000)
Repayment of principal is an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt):	
Refund of bond issue	(11,920,000)
Debt service principal	17,456,240
Installment loans on buses	144,883
Capital lease expenditures	282,628
Decreases in severance liabilities are reported as expenditures when financial resources are used in the governmental funds	
	<u>112,631</u>
Change in net assets of governmental activities	<u>\$ (1,977,803)</u>

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**STATEMENT OF NET ASSETS
FIDUCIARY FUNDS - TRUST AND AGENCY
JUNE 30, 2005**

Assets

Cash and cash equivalents	\$ 913,685
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Liabilities

Accounts payable	300
Due to student groups	<u>889,884</u>
Total liabilities	<u>890,184</u>

Net Assets

Restricted for specific purpose	<u><u>\$ 23,501</u></u>
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See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1 - Significant Accounting Policies

The accounting policies of the Novi Community School District, Michigan (the School District) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The following is a summary of the more significant policies used by the School District:

A. Reporting Entity

The School District is governed by an elected member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on application of the criteria, the entity does not contain component units.

B. District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. Substantially all interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the School District's government-wide activities are considered governmental activities.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1 - Significant Accounting Policies - Continued

B. District-wide and Fund Financial Statements - Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, although the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Statements

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The effect of interfund activity has been substantially eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicant for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1 - Significant Accounting Policies - Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

Fund-based Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are custodial in nature (assets equal liabilities) and do not report the measurement of results of operations.

The School District reports the following major governmental funds:

The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

The Capital Project Fund is used to record bond proceeds and other revenue and the disbursement of money specifically designated for building construction and renovation.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1 - Significant Accounting Policies - Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

Fund-based Statements - Continued

The School District's only Fiduciary Fund is the Trust Fund, which is a nonexpendable trust fund used to account for the cash receipts and disbursements of the various student activity clubs of the School District.

Additionally, the School District reports the following nonmajor governmental fund types:

The School District maintains five nonmajor governmental Debt Service Funds, which are used to account for property tax and other revenue legally restricted for payment of long-term debt.

The School District maintains two nonmajor governmental Special Revenue Funds, which account for the School District's food service and athletic activities.

D. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund and various Debt Service Funds is allocated to each fund using a weighted average of balance for the principal invested.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity - Continued

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds".

All property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes are levied on July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year at which time penalties and interest are assessed and the total obligation is added to county tax rolls.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The School District also receives revenue from the State to administer certain categorical educational programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received which are not expected to be expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity - Continued

Restricted Assets

The unspent bond proceeds of the Capital Projects Fund require amounts to be set aside for construction and capital asset acquisition. The property taxes levied in the Debt Service Fund are required to be set aside for future principal and interest payments on bonded debt. These amounts have been classified as restricted assets.

Capital Assets

Capital assets, which include land, buildings, improvements other than buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the School District as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have any infrastructure-type assets.

Buildings, improvements other than buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings	20 - 50 years
Improvements other than buildings	15 - 30 years
Equipment	5 - 20 years
Vehicles	5 - 10 years

Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity - Continued

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, governmental fund types recognize bond proceeds, premiums and discounts, as well as bond issuance costs, during the current period.

Fund Equity

In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data

Comparative data is not included in the School District's financial statements.

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for all governmental funds. All annual appropriations lapse at the fiscal year end. The budget document presents information by the general and major Special Revenue Fund by function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the functional level. State law requires the School District to have its budget in place by July 1st. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 2 - Stewardship, Compliance and Accountability - Continued

Budgetary Information - Continued

The School District increased/decreased budgeted amounts during the year in response to changes in anticipated spending for salaries, benefits, and other expenditures.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year-end. The commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds

The School District did not have significant expenditure budget variances.

Note 3 - Deposits and Investments

The School District's deposits and investments at June 30, 2005, are composed of the following:

	<u>Cash and Cash Equivalents</u>
Demand deposits and certificates of deposit	\$ 12,749,110
Investments in Michigan School District - Liquid Asset Fund (CADRE)	8,858,964
Petty cash and cash on hand	<u>3,660</u>
Total	<u>\$ 21,611,734</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 3 - Deposits and Investments - Continued

Deposits

At June 30, 2005, the carrying amount of cash and cash equivalents was \$22,525,418, and the bank balance was \$24,354,221. Of that amount, \$500,000 was covered by Federal Depository Insurance and \$23,854,221 was uninsured and uncollateralized.

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the School District evaluates each financial institution it deposits School District funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The School District is authorized by Michigan Public Act 132 of 1986 to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

Investments in the School District's investment pools are stated at market value. At June 30, 2005, the School District had no investment balances.

The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of property taxes and fees for services received prior to meeting spending restrictions or providing the related services.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 5 - Capital Assets

Capital assets activity for the School District's governmental activities was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Reductions/ Disposals</u>	<u>Balance June 30, 2005</u>
Assets not being depreciated:				
Land	\$ 9,607,341	\$ -	\$ -	\$ 9,607,341
Construction-in-progress	25,718,499	14,148,922	(33,565,417)	6,302,004
Assets being depreciated:				
Buildings	70,975,913	29,313,104	(3,758,550)	96,530,467
Building improvements	42,868,701	306,423	-	43,175,124
Ground improvements	8,708,664	2,561,916	(574,326)	10,696,254
Equipment	7,836,732	2,115,030	(249,399)	9,702,363
Buses and equipment	2,516,748	304,413	-	2,821,161
Vehicles	286,382	22,355	-	308,737
Other	<u>93,634</u>	<u>-</u>	<u>-</u>	<u>93,634</u>
Subtotal	<u>133,286,774</u>	<u>34,623,241</u>	<u>(4,582,275)</u>	<u>163,327,740</u>
Accumulated depreciation:				
Buildings	13,806,943	1,608,404	(1,781,956)	13,633,391
Building improvements	6,031,104	924,523	-	6,955,627
Ground improvements	2,068,866	568,496	(293,163)	2,344,199
Equipment	5,373,361	905,865	(226,371)	6,052,855
Buses and equipment	1,423,974	338,240	-	1,762,214
Vehicles	201,827	40,462	-	242,289
Other	<u>31,531</u>	<u>3,730</u>	<u>-</u>	<u>35,261</u>
Subtotal	<u>28,937,606</u>	<u>4,389,720</u>	<u>(2,301,490)</u>	<u>31,025,836</u>
Net capital assets being depreciated	<u>104,349,168</u>	<u>30,233,521</u>	<u>(2,280,785)</u>	<u>132,301,904</u>
Net capital assets	<u>\$139,675,008</u>	<u>\$ 44,382,443</u>	<u>\$(35,846,202)</u>	<u>\$148,211,249</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 5 - Capital Assets - Continued

Depreciation expense was charged to specific activities of the School District as follows:

Governmental activities:

Instruction	\$ 2,642,411
Support services	1,422,320
Food services	148,364
Athletics	53,788
Community services	<u>122,837</u>

Total governmental activities	<u>\$ 4,389,720</u>
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Construction Commitments

The School District has active construction projects at year-end. The projects include the 2001 Bond issue and various other projects. At year-end, the School District's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
2001 Bond issue	\$ 73,952,932	\$ 3,921,570
High school auditorium seats	<u>-</u>	<u>136,515</u>
Total	<u>\$ 73,952,932</u>	<u>\$ 4,058,085</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Funds Due To</u>	<u>Funds Due From Nonmajor Governmental Funds</u>
General Fund	\$ 406,989
Nonmajor Governmental Funds	<u>16,631</u>
Total	<u>\$ 423,620</u>

The composition of interfund balances is as follows:

	<u>Transfers - Out General Fund</u>
Transfers - in:	
Nonmajor Governmental Funds	<u>\$ 634,614</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 7 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), which is a cost-sharing multiple employer, state-wide pension plan governed by the State of Michigan. The plan provides retirement, health and death and disability benefits. Public Act Number 136 of 1945, recodified and currently operating under the provisions of Public Act Number 300 of 1980, as amended assigns the authority to establish and amend the benefit provisions of the MPERS plan document. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Office of Retirement Services, Michigan Public School Employees' Retirement Systems, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (989) 322-5103.

Funding Policy

The contribution requirements of the School District are established by the State of Michigan statutes and may be amended only by action of the State of Michigan Legislature. The School District is required to contribute at an actuarially determined rate. The required employer contribution rates for retirement benefits, including pension and health care benefits for the fiscal years ended September 30, 2004 and 2003 were 14.87% and 12.99%, respectively, of annual covered payroll. The actual contribution rates for pension benefits for the fiscal year ended September 30, 2004 was 6.31%. The fiscal year 2004 annual covered payroll is not yet available.

Postemployment Benefits

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to 10 percent of the monthly premium amount for the dental and vision coverages. Retirees who are not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS plan discussed above.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 8 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District participates in the Middle Cities Risk Management Trust risk pool for claims relating to property liability, and errors and omissions; the School District is partially insured for medical benefits provided to the employees and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include installment loans, compensated absences, and severance benefits.

Long-term obligation activity can be summarized as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities					
Bonds	\$136,933,302	\$ 11,920,000	\$ 17,456,240	\$ 131,397,062	\$ 6,253,399
Other obligations	<u>1,223,233</u>	<u>838,123</u>	<u>540,144</u>	<u>1,521,212</u>	<u>494,884</u>
Total governmental activities	<u>\$138,156,535</u>	<u>\$ 12,758,123</u>	<u>\$ 17,996,384</u>	<u>\$ 132,918,274</u>	<u>\$ 6,748,283</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 9 - Long-Term Debt - Continued

Total long-term debt at June 30, 2005, consists of the following:

Bonds Payable

1993 bond issue - original amount	\$ 31,898,736
Less: Bonds paid in prior years	27,085,434
Bonds paid May 1, 2005	<u>1,446,240</u>
Bonds outstanding - June 30, 2005	<u>\$ 3,367,062</u>

Bonds payable are as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	6.150	\$ 1,566,601	\$ 1,273,399	\$ 2,840,000
2007	6.200	1,550,923	1,119,077	2,670,000
2008	6.250	<u>1,515,414</u>	<u>974,586</u>	<u>2,490,000</u>
		<u>\$ 4,632,938</u>	<u>\$ 3,367,062</u>	<u>\$ 8,000,000</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 9 - Long-Term Debt - Continued

1997 bond issue - original amount	\$ 19,190,000
Less: Bonds paid in prior years	3,655,000
Bonds paid May 1, 2005	<u>75,000</u>
Bonds outstanding - June 30, 2005	<u>\$ 15,460,000</u>

Bonds payable are as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	4.650	\$ 786,940	\$ 80,000	\$ 866,940
2007	4.700	783,220	85,000	868,220
2008	4.750	779,225	90,000	869,225
2009	4.850	774,950	1,585,000	2,359,950
2010	4.950	698,078	1,570,000	2,268,078
2011	5.000	620,363	1,555,000	2,175,363
2012	5.050	542,613	1,540,000	2,082,613
2013	5.100	464,843	1,525,000	1,989,843
2014	5.150	387,068	1,515,000	1,902,068
2015	5.200	309,045	1,500,000	1,809,045
2016	5.200	231,045	1,485,000	1,716,045
2017	5.250	153,825	1,475,000	1,628,825
2018	5.250	<u>76,388</u>	<u>1,455,000</u>	<u>1,531,388</u>
		<u>\$ 6,607,603</u>	<u>\$ 15,460,000</u>	<u>\$ 22,067,603</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 9 - Long-Term Debt - Continued

1998 bond issue - original amount	\$ 17,300,000
Less: Bonds paid in prior years	2,565,000
Bonds paid May 1, 2005	<u>12,880,000</u>
Bonds outstanding - June 30, 2005	<u>\$ 1,855,000</u>

Bonds payable are as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	4.500	\$ 83,476	\$ 890,000	\$ 973,476
2007	4.500	<u>43,426</u>	<u>965,000</u>	<u>1,008,426</u>
		<u>\$ 126,902</u>	<u>\$ 1,855,000</u>	<u>\$ 1,981,902</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 9 - Long-Term Debt - Continued

2001 bond issue - original amount	\$ 75,640,000
Less: Bonds paid in prior years	1,950,000
Bonds paid May 1, 2005	<u>1,700,000</u>
Bonds outstanding - June 30, 2005	<u>\$ 71,990,000</u>

Bonds payable are as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	4.000	\$ 3,310,161	\$ 2,735,000	\$ 6,045,161
2007	4.100	3,200,761	3,030,000	6,230,761
2008	4.125	3,076,531	3,300,000	6,376,531
2009	4.125	2,940,406	3,875,000	6,815,406
2010	4.125	2,780,563	4,050,000	6,830,563
2011	4.125	2,613,500	4,225,000	6,838,500
2012	4.250	2,439,219	4,400,000	6,839,219
2013	4.375	2,252,219	4,450,000	6,702,219
2014	4.500	2,057,531	4,500,000	6,557,531
2015	4.500	1,855,031	4,550,000	6,405,031
2016	4.500	1,650,281	4,600,000	6,250,281
2017	5.000	1,443,281	4,650,000	6,093,281
2018	5.125	1,210,781	4,700,000	5,910,781
2019	5.125	969,906	4,725,000	5,694,906
2020	5.125	727,750	4,725,000	5,452,750
2021	5.125	485,594	4,725,000	5,210,594
2022	5.125	<u>243,438</u>	<u>4,750,000</u>	<u>4,993,438</u>
		<u>\$ 33,256,953</u>	<u>\$ 71,990,000</u>	<u>\$105,246,953</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 9 - Long-Term Debt - Continued

2002 bond issue - original amount	\$ 28,460,000
Less: Bonds paid in prior years	300,000
Bonds paid May 1, 2005	<u>1,355,000</u>
Bonds outstanding - June 30, 2005	<u>\$ 26,805,000</u>

Bonds payable are as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	5.000	\$ 1,119,732	\$ 1,275,000	\$ 2,394,732
2007	2.500	1,055,982	1,445,000	2,500,982
2008	5.000	1,019,858	1,615,000	2,634,858
2009	3.000	939,108	1,850,000	2,789,108
2010	3.150	883,608	1,815,000	2,698,608
2011	4.000	826,436	1,785,000	2,611,436
2012	3.350	755,036	1,770,000	2,525,036
2013	5.000	695,740	1,740,000	2,435,740
2014	3.700	608,740	1,740,000	2,348,740
2015	4.000	544,360	1,715,000	2,259,360
2016	4.000	475,760	1,700,000	2,175,760
2017	5.000	407,760	1,680,000	2,087,760
2018	5.000	323,760	1,675,000	1,998,760
2019	5.000	240,010	1,670,000	1,910,010
2020	5.000	156,510	1,665,000	1,821,510
2021	4.000	<u>73,260</u>	<u>1,665,000</u>	<u>1,738,260</u>
		<u>\$ 10,125,660</u>	<u>\$ 26,805,000</u>	<u>\$ 36,930,660</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

Note 9 - Long-Term Debt - Continued

2005 bond issue - original amount	\$ 11,920,000
Less: Bonds paid in prior years	-
Bonds paid May 1, 2005	<u>-</u>
Bonds outstanding - June 30, 2005	<u>\$ 11,920,000</u>

Bonds payable are as follows:

<u>Year</u>	<u>Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	-	\$ 539,690	\$ -	\$ 539,690
2007	-	502,038	-	502,038
2008	3.000	1,572,038	1,070,000	2,642,038
2009	3.000	1,544,938	1,075,000	2,619,938
2010	3.500	1,512,688	1,075,000	2,587,688
2011	3.500	1,475,063	1,075,000	2,550,063
2012	3.875	1,437,438	1,075,000	2,512,438
2013	5.000	1,395,781	1,075,000	2,470,781
2014	4.375	1,342,031	1,075,000	2,417,031
2015	5.000	1,320,000	1,100,000	2,420,000
2016	5.000	1,265,000	1,100,000	2,365,000
2017	5.000	1,210,000	1,100,000	2,310,000
2018	5.000	<u>1,155,000</u>	<u>1,100,000</u>	<u>2,255,000</u>
		<u>\$ 16,271,705</u>	<u>\$ 11,920,000</u>	<u>\$ 28,191,705</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 9 - Long-Term Debt - Continued

The annual requirements to service the bonds outstanding to maturity, including both principal and interest, are as follows:

<u>Year Ending June 30th:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 6,253,399	\$ 7,406,600	\$ 13,659,999
2007	6,644,077	7,136,350	13,780,427
2008	7,049,586	7,963,066	15,012,652
2009	8,385,000	6,199,402	14,584,402
2010	8,510,000	5,874,937	14,384,937
2011 - 2013	26,215,000	15,518,251	41,733,251
2014 - 2018	44,415,000	18,026,687	62,441,687
2019 - 2023	<u>23,925,000</u>	<u>2,896,468</u>	<u>26,821,468</u>
Total	<u>\$ 131,397,062</u>	<u>\$ 71,021,761</u>	<u>\$ 202,418,823</u>

Capital Leases

The School District leases copy machines under separate capital lease arrangements in April and October 2004. The leases call for annual payments of \$203,655 including interest through March 2009.

The minimum future lease payments under the capital lease obligations as of June 30, 2005 are as follows:

<u>Year Ending June 30th:</u>	<u>Total</u>
2006	\$ 203,655
2007	203,655
2008	154,139
2009	<u>1,398</u>
Total minimum lease payments	562,847
Less portion representing interest	<u>45,413</u>
Present value of net minimum lease payments	<u>\$ 517,434</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 9 - Long-Term Debt - Continued

Capital Leases - Continued

The School District entered into a Lease Purchase Agreement for the purchase of three (3) school buses. The lease calls for annual payments of \$38,827 including interest through 2008.

The minimum future lease payments under the capital lease obligations as of June 30, 2005 are as follows:

<u>Year Ending June 30th:</u>	<u>Total</u>
2006	\$ 38,827
2007	38,827
2008	<u>38,826</u>
Total minimum lease payments	116,480
Less portion representing interest	<u>8,137</u>
Present value of net minimum lease payments	<u>\$ 108,343</u>

Notes Payable

2001 Bus Installment Loan dated November 15, 2001, annual principal payments of \$50,785 to \$45,291, due serially to March 1, 2006; interest rate at 3.89% (original issue totaled \$242,000).

The amount of notes payable coming due during the year ending June 30, 2006 is as follows:

<u>Year Ending June 30th:</u>	<u>Total</u>
2006	<u>\$ 50,785</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 9 - Long-Term Debt - Continued

Other Long-Term Obligations

Other long-term obligations consist of the following:

Severance liability	\$ 680,429
Compensated absences liability	<u>164,221</u>
Total	<u>\$ 844,650</u>

Note 10 - Capital Projects Fund

The 2001 Capital Projects Fund includes activities funded with bonds issued after May 1, 1994. The 2001 Sinking Fund includes capital project activities funded by a .5 millage rate. The following is a summary of the revenues and expenditures in the 2001 Capital Projects Fund and the 2001 Sinking Fund from inception of the funds through the current fiscal year:

	<u>2001 Capital Projects</u>	<u>2001 Sinking Fund</u>
Revenues	\$ 80,221,832	\$ 3,582,126
Expenditures	73,502,295	2,962,998

For these capital projects, the School District has complied with the applicable provisions of Section 1351(a) of the Revised School Code.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 11 - Contingent Liabilities

The School District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits as described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*. The audits of these programs for and including the year ended June 30, 2005, have been conducted and reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

Note 12 - Governmental Regulation

Substantially all of the School District's facilities are subject to federal, state, and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures, or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal, state, and local requirements.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 13 - Compensated Absences

Teachers are provided with 15 sick days per year. An unlimited number of days can be accumulated. Upon retirement, the School District will reimburse a maximum of 30 days at rates ranging from \$50 to \$70 per day. Eligible teachers must have ten or more years of service in the School District and have not used more than six paid (sick) leave allowance days during five of the ten years preceding the severance of employment. In addition, each eligible teacher must have accumulated at least 80 days in their sick leave allowance bank.

Secretaries are provided with 15 sick days per year. An unlimited number of days can be accumulated. Upon retirement, the School District will reimburse a maximum of 30 days at rates ranging from \$20 to \$40 per day. Eligible secretaries must have ten or more years of service in the School District and have not used more than six paid (sick) leave allowance days during five of the ten years preceding the severance of employment. In addition, each eligible secretary must have accumulated at least 130 days in their sick leave allowance bank.

Custodians are provided with 15 sick days per year. An unlimited number of days can be accumulated. Upon retirement, the School District will reimburse a maximum of 35 days at the custodian's daily rate. Eligible custodians must have ten or more years of service in the School District and have accumulated at least 50 days in their sick leave allowance bank.

Bus drivers are provided with 15 sick days per year. A maximum of 150 days can be accumulated. Upon retirement, the School District will reimburse a maximum of 50 days at the rate of 50% of the average daily rate of pay at the time of retirement. Eligible bus drivers must have ten or more years of service in the School District and have accumulated at least 50 days in their sick leave allowance bank.

REQUIRED SUPPLEMENTARY INFORMATION

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under) Final Budget</u>
Revenues				
Local sources				
Taxes	\$ 23,541,139	\$ 23,343,752	\$ 23,224,845	\$ (118,907)
Interest	50,000	85,000	203,671	118,671
Other sources	2,210,725	2,383,626	2,316,885	(66,741)
State sources - state school aid				
Restricted	1,792,486	2,850,022	3,292,183	442,161
Unrestricted	31,229,075	31,007,258	30,709,171	(298,087)
Federal sources				
Restricted grants	1,019,435	1,404,726	1,231,806	(172,920)
Payments from other schools and intermediate school districts	<u>4,231,046</u>	<u>4,467,081</u>	<u>4,577,657</u>	<u>110,576</u>
Total revenues	64,073,906	65,541,465	65,556,218	14,753
Expenditures				
Instructional	40,977,286	39,317,154	38,869,891	447,263
Supporting services	20,458,469	23,181,651	22,398,100	783,551
Community services	<u>2,126,102</u>	<u>2,142,916</u>	<u>2,022,896</u>	<u>120,020</u>
Total expenditures	63,561,857	64,641,721	63,290,887	1,350,834
Other Financing Sources (Uses)				
Other financing sources	300,000	-	-	-
Operating transfers - out	(695,883)	(685,604)	(634,614)	50,990
Payments to other governmental units	(699,199)	(595,274)	(551,712)	43,562
Principal and interest payments on loans	<u>(266,165)</u>	<u>(192,736)</u>	<u>(192,792)</u>	<u>(56)</u>
Total other financing sources (uses)	<u>(1,361,247)</u>	<u>(1,473,614)</u>	<u>(1,379,118)</u>	<u>94,496</u>
Net Change in Fund Balance	(849,198)	(573,870)	886,213	1,460,083
Fund Balance - July 1, 2004	<u>10,957,760</u>	<u>10,957,760</u>	<u>10,957,760</u>	<u>-</u>
Fund Balance - June 30, 2005	<u>\$ 10,108,562</u>	<u>\$ 10,383,890</u>	<u>\$ 11,843,973</u>	<u>\$ 1,460,083</u>

OTHER SUPPLEMENTAL INFORMATION

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

ASSETS

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>	
	<u>Cafeteria Fund</u>	<u>Athletic Fund</u>	<u>1993 Debt Fund</u>	<u>1997 Debt Fund</u>
Cash and cash equivalents	\$ 884,321	\$ -	\$ 86,670	\$ 141,554
Receivables				
Accounts	33,473	-	-	-
Taxes	-	-	60,144	18,713
Due from other funds	-	16,631	-	-
Inventories	26,267	-	-	-
Prepaid expenses	<u>3,936</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 947,997</u>	<u>\$ 16,631</u>	<u>\$ 146,814</u>	<u>\$ 160,267</u>

LIABILITIES AND FUND BALANCES

Salaries payable	\$ 29,828	\$ -	\$ -	\$ -
Accounts payable	38,793	16,631	-	-
Deferred revenue	50,878	-	59,514	18,514
Due to other funds	<u>423,620</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	543,119	16,631	59,514	18,514
Fund balances	<u>404,878</u>	<u>-</u>	<u>87,300</u>	<u>141,753</u>
Total liabilities and fund balances	<u>\$ 947,997</u>	<u>\$ 16,631</u>	<u>\$ 146,814</u>	<u>\$ 160,267</u>

Debt Service Funds				Capital Project Fund	
1998 Debt Fund	2001 Debt Fund	2002 Debt Fund	2005 Debt Fund	Sinking Fund	Total
\$ 151,099	\$ 652,494	\$ 471,346	\$ 26,208	\$ 618,923	\$ 3,032,615
-	-	-	-	-	33,473
24,239	71,059	47,142	-	14,985	236,282
-	-	-	-	-	16,631
-	-	-	-	-	26,267
-	-	-	-	-	3,936
<u>\$ 175,338</u>	<u>\$ 723,553</u>	<u>\$ 518,488</u>	<u>\$ 26,208</u>	<u>\$ 633,908</u>	<u>\$ 3,349,204</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,828
-	-	-	-	-	55,424
23,914	69,983	46,558	-	14,780	284,141
-	-	-	-	-	423,620
23,914	69,983	46,558	-	14,780	793,013
151,424	653,570	471,930	26,208	619,128	2,556,191
<u>\$ 175,338</u>	<u>\$ 723,553</u>	<u>\$ 518,488</u>	<u>\$ 26,208</u>	<u>\$ 633,908</u>	<u>\$ 3,349,204</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**OTHER SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Special Revenue Funds		Debt Service Funds	
	Cafeteria Fund	Athletic Fund	1993 Debt Fund	1997 Debt Fund
Revenues				
Local sources				
Taxes	\$ -	\$ -	\$ 3,022,058	\$ 884,183
Interest	27,248	-	19,227	4,198
Cafeteria sales	2,077,099	-	-	-
Other sources	-	80,315	-	-
State sources - state school aid	34,066	-	-	-
Federal sources	162,441	-	-	-
Total revenues	2,300,854	80,315	3,041,285	888,381
Expenditures				
Supporting services	2,171,828	714,929	-	-
Capital outlay	-	-	-	-
Principal	-	-	1,446,240	75,000
Interest and fees	-	-	1,553,760	790,652
Total expenditures	2,171,828	714,929	3,000,000	865,652
Excess of Revenues Over (Under) Expenditures	129,026	(634,614)	41,285	22,729
Other Financing Sources (Uses)				
Payments to bond escrow agent	-	-	-	-
Proceeds from refinancing debt	-	-	-	-
Operating transfers - in	-	634,614	-	-
Total other financing sources (uses)	-	634,614	-	-
Net Change in Fund Balances	129,026	-	41,285	22,729
Fund Balances - July 1, 2004	275,852	-	46,015	119,024
Fund Balances - June 30, 2005	\$ 404,878	\$ -	\$ 87,300	\$ 141,753

Debt Service Funds				Capital Project Fund	
1998 Debt Fund	2001 Debt Fund	2002 Debt Fund	2005 Debt Fund	Sinking Fund	Total
\$ 1,545,785	\$ 5,110,154	\$ 2,775,310	\$ -	\$ 977,322	\$ 14,314,812
8,870	25,903	15,861	109	7,957	109,373
-	-	-	-	-	2,077,099
-	-	13	-	31,592	111,920
-	-	-	-	-	34,066
-	-	-	-	-	162,441
1,554,655	5,136,057	2,791,184	109	1,016,871	16,809,711
-	-	-	-	-	2,886,757
-	-	-	-	704,617	704,617
810,000	1,700,000	1,355,000	-	-	5,386,240
410,225	3,378,436	1,147,409	-	-	7,280,482
1,220,225	5,078,436	2,502,409	-	704,617	16,258,096
334,430	57,621	288,775	109	312,254	551,615
(345,000)	-	-	-	-	(345,000)
-	-	-	26,100	-	26,100
-	-	-	-	-	634,614
(345,000)	-	-	26,100	-	315,714
(10,570)	57,621	288,775	26,209	312,254	867,329
161,994	595,949	183,155	-	306,874	1,688,863
\$ 151,424	\$ 653,570	\$ 471,930	\$ 26,209	\$ 619,128	\$ 2,556,192

**ANALYSIS OF 2004 TAX LEVIES
AND
SUMMARY OF DELINQUENT TAXES**

BOARD OF EDUCATION NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN

ANALYSIS OF 2004 TAX LEVIES FOR THE YEAR ENDED JUNE 30, 2005

Tax Rates:

General Fund	
Homestead	
Hold Harmless	3.8381
Recreational	0.9800
Sinking Fund	0.4932
State Millage	<u>6.0000</u>
Total homestead	11.3113
Non-Homestead	
General Operating	18.0000
Recreational	0.9800
Sinking Fund	0.4932
State Millage	<u>6.0000</u>
Total non-homestead	25.4732
Debt Fund	
1993 Debt	1.5200
1997 Debt	0.4500
1998 Debt	0.7800
2001 Debt	2.5800
2002 Debt	<u>1.4000</u>
Total debt fund	<u>6.7300</u>
Total tax rate - Homestead	18.0413
Total tax rate - Non-Homestead	32.2032

Taxable Values:

City of Novi	\$ 2,010,213,950
City of Wixom	<u>1,906,700</u>
Total taxable values	<u>\$ 2,012,120,650</u>

	<u>Operating</u>	<u>Sinking Fund</u>	<u>Debt</u>	<u>Total</u>
Taxes Levied				
City of Novi	\$ 23,280,645	\$ 978,942	\$ 13,359,312	\$ 37,618,899
City of Wixom	<u>36,292</u>	<u>943</u>	<u>12,868</u>	<u>50,103</u>
Total taxes levied	23,316,937	979,885	13,372,180	37,669,002
Taxes Collected				
City of Novi	23,066,084	973,008	13,278,151	37,317,243
City of Wixom	<u>36,292</u>	<u>943</u>	<u>12,868</u>	<u>50,103</u>
Total taxes collected	<u>23,102,376</u>	<u>973,951</u>	<u>13,291,019</u>	<u>37,367,346</u>
Delinquent Taxes				
City of Novi	<u>\$ 214,561</u>	<u>\$ 5,934</u>	<u>\$ 81,161</u>	<u>\$ 301,656</u>

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SUMMARY OF DELINQUENT TAXES
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>General Fund</u>	<u>Sinking Fund</u>	<u>Debt Fund</u>	<u>Total</u>
Balance - July 1, 2004	\$ 463,703	\$ 18,990	\$ 258,922	\$ 741,615
Additions				
2004 delinquent taxes	214,561	5,934	81,161	301,656
Deductions				
Delinquent tax collections	122,470	3,370	46,471	172,311
Prior year taxes written-off	<u>93,617</u>	<u>6,774</u>	<u>75,129</u>	<u>175,520</u>
Balance - June 30, 2005	<u>\$ 462,177</u>	<u>\$ 14,780</u>	<u>\$ 218,483</u>	<u>\$ 695,440</u>

**NOVI COMMUNITY SCHOOL
DISTRICT, MICHIGAN**

**SINGLE AUDIT
REPORTING PACKAGE**

JUNE 30, 2005



To the Board of Education of the
Novi Community School District, Michigan

We have audited the financial statements of the governmental activities, major funds, and the aggregate remaining fund information of the Novi Community School District, Michigan as of and for the year ended June 30, 2005, and have issued our report thereon dated September 15, 2005, which was unqualified. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

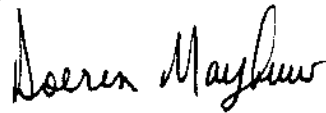
As part of obtaining reasonable assurance about whether the financial statements of the governmental activities, major funds, and the aggregate remaining fund information of the Novi Community School District, Michigan are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Novi Community School District, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

DOEREN MAYHEW

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Doeren Mayhew". The signature is written in a cursive style with a large, stylized 'D' and 'M'.

DOEREN MAYHEW

September 15, 2005
Troy, Michigan



To the Board of Education of the
Novi Community School District, Michigan

Compliance

We have audited the compliance of the Novi Community School District, Michigan with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Novi Community School District, Michigan's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Novi Community School District, Michigan's management. Our responsibility is to express an opinion on Novi Community School District, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Novi Community School District, Michigan's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Novi Community School District, Michigan's compliance with those requirements.

As described in item 02-1 in the accompanying Schedule of Findings and Questioned Costs, Novi Community School District, Michigan did not comply with requirements regarding special tests and provisions that are applicable to Special Education. Compliance with such requirements is necessary, in our opinion for Novi Community School District, Michigan to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Novi Community School District, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

DOEREN MAYHEW

Internal Control Over Compliance

The management of Novi Community School District, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs.

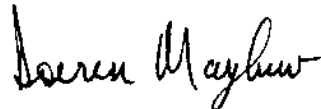
In planning and performing our audit, we considered Novi Community School District, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Novi Community School District, Michigan. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Novi Community School District, Michigan. The combining and individual non-major fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specific parties.



DOEREN MAYHEW

September 15, 2005
Troy, Michigan

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005**

SECTION I

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the governmental activities, major funds, and the aggregate remaining fund information of Novi Community School District, Michigan.
2. No reportable conditions were noted on the internal control over financial reporting.
3. No material instances of noncompliance were noted during the general purpose financial statements audit.
4. No reportable conditions were noted on the internal control over major federal awards programs.
5. The auditor's report on the compliance for the major federal awards programs for Novi Community School District, Michigan expresses a qualified opinion.
6. Audit findings or questioned costs per Section 510(b) of Circular A-133 relative to major federal awards programs for Novi Community School District, Michigan were noted.
7. The program tested as a major program included: Federal Assistance for the Education of Handicapped Persons - Special Education, CFDA No. 84.027.
8. Total federal expenditures amounted to \$1,394,247. One individual program exceeded \$300,000 in expenditures. Therefore, there was one Type A program: Federal Assistance for the Education of Handicapped Persons - Special Education, CFDA No. 84.027. Novi Community School District, Michigan had two programs that expended between \$300,000 and \$100,000, which would be considered Type B programs. The low risk Type B programs were the Title II, Part A Program CFDA No. 84.367 and the National School Lunch Program CFDA No. 93.778. No Type B programs were selected for testing.
9. The Novi Community School District, Michigan does not qualify as a low-risk auditee.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005**

SECTION II

FINDINGS - FINANCIAL STATEMENTS AUDIT

None noted.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005**

SECTION III

FINDINGS - FEDERAL AWARDS AUDIT

02-1 Reportable Condition

Finding Type

Material noncompliance.

Federal Program

U.S. Department of Education, passed through the Oakland County Intermediate School District, Special Education, CFDA #84.027.

Criteria

Pursuant to the Michigan Administrative Rules for Special Education, Section R 340.1721d, Rule 21e (2) (b) an Individual Education Plan (IEP) must be prepared for all special education students annually.

Condition

One participant in the special education program did not have a current IEP in their file.

Recommendation and Response

We recommend, and the Novi Community School District, Michigan concurs, that current IEP's should be filled out for each participant in the special education program. At the beginning of each school year, the files of all students in the program should be reviewed and verified that the proper documentation is present.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION IV

FINDING NUMBER 02-1

Responsible Individual: James Koster

Corrective Action Planned: Management will ensure that an IEP is completed for each participant in the special education program. Management will also ensure that the files of all special education participants are reviewed at the beginning of each school year to verify that proper documentation is included.

Management's Response: Management agrees with the finding and the recommendation.

Anticipated Completion Date: June 30, 2006

BOARD OF EDUCATION NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Program Award/ Amount	Accrued (Deferred) Revenue at 7/1/04	Prior Year Expenditures	Adjustments	Current Year Receipts	Revenue Recognized	Expenditures 7/1/04 - 6/30/05	Accrued (Deferred) Revenue at 6/30/05
<u>U.S. Department of Education - Passed Through Michigan Department of Education</u>									
<u>Title V, Part A - Innovative Education Program Strategies</u>									
050520-0405 Regular	84.367	\$ 3,691	\$ -	\$ -	\$ -	\$ 3,691	\$ 3,691	\$ 3,691	\$ -
Total Title V, Part A - Innovative Education Program Strategies		3,691	-	-	-	3,691	3,691	3,691	-
<u>Title II, Part A - Teacher/Principal Training and Recruiting</u>									
040520-0304 Regular	84.367	127,368	30,675	54,784	-	64,395	33,719	33,719	-
040520-0405 Carryover	84.367	38,915	-	-	-	38,914	38,914	38,914	-
050520-0405 Regular	84.367	126,303	-	-	-	25,121	68,540	68,540	43,418
Total Title II, Part A - Teacher/Principal Training and Recruiting		292,586	30,675	54,784	-	128,430	141,173	141,173	43,418
<u>Title III - Limited English Proficiency</u>									
050580-0405 Regular	84.365A	80,594	-	-	-	23,824	36,483	36,483	12,659
Total Title III - Limited English Proficiency		80,594	-	-	-	23,824	36,483	36,483	12,659

See Notes to the Schedule of Expenditures of Federal Awards

BOARD OF EDUCATION NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Program Award/ Amount	Accrued (Deferred) Revenue at 7/1/04	Prior Year Expenditures	Adjustments	Current Year Receipts	Revenue Recognized	Expenditures 7/1/04 - 6/30/05	Accrued (Deferred) Revenue at 6/30/05
<u>U.S. Department of Education - Passed Through</u>									
<u>Michigan Department of Education - Continued</u>									
<u>Federal Drug-Free Schools and Communities</u>									
042860-0304 Regular	84.186A	\$ 19,570	\$ 4,620	\$ 16,462	\$ -	\$ 4,620	\$ -	\$ -	\$ -
052860-0405 Regular	84.186A	15,278	-	-	-	12,993	15,278	15,278	2,285
Total Federal Drug-Free Schools and Communities		34,848	4,620	16,462	-	17,613	15,278	15,278	2,285
<u>Title I - Educationally Deprived Children</u>									
031530-0304 Carryover	84.002A	44,304	21,204	42,543	-	21,204	-	-	-
Total Title I - Educationally Deprived Children		44,304	21,204	42,543	-	21,204	-	-	-
<u>Title II - Adult Education and Literacy</u>									
051130-510605	84.002A	60,000	-	-	-	60,000	60,000	60,000	-
Total Title II - Adult Education and Literacy		60,000	-	-	-	60,000	60,000	60,000	-

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Program Award/ Amount	Accrued (Deferred) Revenue at 7/1/04	Prior Year Expenditures	Adjustments	Current Year Receipts	Revenue Recognized	Expenditures 7/1/04 - 6/30/05	Accrued (Deferred) Revenue at 6/30/05
U.S. Department of Education - Passed Through Michigan Department of Education - Continued									
English Literacy and Civics Education									
031120-4500623	84.002A	\$ 29,233	\$ 2,723	\$ 23,284	\$ -	\$ 2,723	\$ -	\$ -	-
041120-4500623	84.002A	11,368	625	7,359	-	625	-	-	-
051120-5500624	84.002A	27,600	-	-	-	23,558	26,243	26,243	2,685
Total English Literacy and Civics Education									
Total U.S. Department of Education - Passed Through Michigan Department of Education									
		584,224	59,847	144,432	-	281,668	282,868	282,868	61,047

See Notes to the Schedule of Expenditures of Federal Awards

BOARD OF EDUCATION NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Program Award/ Amount	Accrued (Deferred) Revenue at 7/1/04	Prior Year Expenditures	Adjustments	Current Year Receipts	Revenue Recognized	Expenditures 7/1/04 - 6/30/05	Accrued (Deferred) Revenue at 6/30/05
<u>U.S. Department of Education - Passed Through Michigan Department of Education - Passed Through Oakland County Intermediate School District</u>									
<u>Federal Assistance for the Education of Handicapped Persons - Special Education</u>									
050450 Flowthrough	84.027	\$ 861,824	\$ -	\$ -	\$ -	\$ 840,015	\$ 861,824	\$ 861,824	\$ 21,809
050460 Preschool	84.173A	34,615	-	-	-	34,615	34,615	34,615	-
050490 Capacity Building	84.027A	9,210	-	-	-	-	4,882	4,882	4,882
Total Federal Assistance for the Education of Handicapped Persons - Special Education		905,649	-	-	-	874,630	901,321	901,321	26,691
<u>Vocational Education - Basic Grants to States (Perkins III)</u>									
043520-4012-18 Regular	84.048	7,597	7,582	7,582	-	7,582	-	-	-
053520-5012-18 Regular	84.048	31,271	-	-	-	14,199	27,768	27,768	13,569
Total Vocational Education - Basic Grants to States (Perkins III)		38,868	7,582	7,582	-	21,781	27,768	27,768	13,569
Total U.S. Department of Education - Passed Through Michigan Department of Education - Passed Through Oakland County Intermediate School District		944,517	7,582	7,582	-	896,411	929,089	929,089	40,260
Total U.S. Department of Education		1,528,741	67,429	152,014	-	1,178,079	1,211,957	1,211,957	101,307

See Notes to the Schedule of Expenditures of Federal Awards

BOARD OF EDUCATION NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Program Award/ Amount	Accrued (Deferred) Revenue at 7/1/04	Prior Year Expenditures	Adjustments	Current Year Receipts	Revenue Recognized	Expenditures 7/1/04 - 6/30/05	Accrued (Deferred) Revenue at 6/30/05
<u>U.S. Department of Health and Human Services - Passed Through Michigan Department of Community Health</u>									
<u>Medicare Catastrophic Coverage Act</u>									
Outreach Project 04 Transportation	93.778	\$ 7,519 (7,470)	\$ -	\$ -	\$ -	\$ 7,519 (7,470)	\$ 7,519 (7,470)	\$ 7,519 (7,470)	\$ -
Total U.S. Department of Health and Human Services - Passed Through Michigan Department of Community Health		49	-	-	-	49	49	49	-
<u>Federal Emergency Management Agency - Passed Through Michigan State Police</u>									
<u>2003 State Homeland Security Grant Program - Part II (School Initiative)</u>									
Project	97.004	19,800	-	-	-	19,800	19,800	19,800	-
Total Federal Emergency Management Agency - Passed Through Michigan State Police		19,800	-	-	-	19,800	19,800	19,800	-

See Notes to the Schedule of Expenditures of Federal Awards

BOARD OF EDUCATION NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Program Award/ Amount	Accrued (Deferred) Revenue at 7/1/04	Prior Year Expenditures	Adjustments	Current Year Receipts	Revenue Recognized	Expenditures 7/1/04 - 6/30/05	Accrued (Deferred) Revenue at 6/30/05
<u>U.S. Department of Agriculture -</u>									
<u>Passed Through Michigan</u>									
<u>Department of Education</u>									
National School Lunch Program 03-04	93.778	\$ 97,511	\$ 15,694	\$ -	\$ -	\$ 15,694	\$ -	\$ -	\$ -
National School Lunch Program 04-05	93.778	113,444	-	-	-	92,858	113,444	113,444	20,586
Donated Food Commodities - Bonus	93.778	8,825	-	-	-	8,825	8,825	8,825	-
Donated Food Commodities - Entitlement	93.778	40,172	-	-	-	40,172	40,172	40,172	-
Total U.S. Department of Agriculture - Passed Through Michigan Department of Education		259,952	15,694	-	-	157,549	162,441	162,441	20,586
Total all programs		\$ 1,808,542	\$ 83,123	\$ 249,525	\$ -	\$ 1,355,477	\$ 1,394,247	\$ 1,394,247	\$ 121,893

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance and federal cost-reimbursement contracts of the Novi Community School District, Michigan. Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual cost reports. Novi Community School District, Michigan receives federal awards indirectly through pass-through entities.

Except for the current year receipts column, which is presented on the cash basis of accounting, federal program expenditures included in the accompanying schedule are presented on the modified accrual basis of accounting. The modified accrual basis of accounting is also used for the general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Inventory values are based on the USDA value for donated food commodities. Reported commodity receipts values were computed using the Recipient Entitlement Balance Report and other district records. Spoilage or pilferage, if any, is included in expenditures.

Note 2 - Major Programs

Major programs are identified in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs.

Note 3 - Form R1720

Management has utilized the Grant Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. The amounts on the R7120 are included on the Schedule of Expenditures of Federal Awards.

**NOVI COMMUNITY SCHOOL
DISTRICT, MICHIGAN**

**COMMENTS AND RECOMMENDATIONS
MEMORANDUM**

JUNE 30, 2005



September 15, 2005

Members of the Board of Education
Novi Community School District, Michigan
25345 Taft Road
Novi, Michigan 48374-2423

Dear Board Members:

We have recently completed an audit of the financial statements of the Novi Community School District, Michigan for the year ended June 30, 2005. Our audit was made primarily for the purpose of expressing our opinion on these statements and, accordingly, did not encompass a detailed review of systems, procedures and internal controls.

We would like to compliment the business office for the excellent job that they have done this past year. We completed the audit with a minimum of adjustments and enjoyed working again with your highly professional staff. However, during our audit, we observed certain areas where we believe improvements can be effected, and we offer the enclosed comments and recommendations memorandum for your review.

The accompanying memorandum is not based upon a complete survey of all phases of operating and executive controls; it does, however, direct attention to certain areas which we believe to be especially worthy of the Board's consideration. We appreciate that the ultimate objective of the Board of Education is to achieve maximum control at a minimum cost. We believe that consideration of the recommendations enumerated in this memorandum are compatible with that objective.

After you have reviewed our recommendations, we will be pleased to discuss the contents with you and to assist in the implementation or correction of any items set forth herein.

DOEREN MAYHEW

COMMENTS AND RECOMMENDATIONS

Formal Fraud Policy

The risk of fraud occurring within the School District can be reduced by implementing a formal fraud policy. This policy should communicate to all employees the School District's views on risks that the School District faces due to fraud, the effect of the code of conduct, the employees responsibility to report fraud, the School District's responsibility to investigate and the disciplinary actions that will be taken.

Findings:

During our audit procedures, we noted that the School District does not have a formal fraud policy implemented.

Recommendation:

We recommend that the School District develop a formal policy and communicate the requirements of the policy with all current and new staff. We further suggest that each employee sign a waiver that they were informed of and understand the new policy.

Along with the policy the School District needs to develop a way for employees to report fraud. Internal reporting channels, such as managers' open-door policies and through surveys, have been found to be effective. Hotline services have been found to perform better for anonymous tips and certain other types of suspected misconduct such as sexual harassment.

Formal Investment Policy

Investment policies describe the Board's philosophies, policies and goals pertaining to use of assets. The policy should state the acceptable level of risk, who has the right to make transfers, purchases or sales, and the frequency of evaluation.

Findings:

During our audit, we noted that the School District does not have a formal written investment policy.

Recommendation:

We recommend that the School District develop a formal investment policy that will enable the School District to better administer what investment decisions in the School District is involved with.